Development Accounting and International Trade

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Abstract

A significant part of cross-country income differences is attributed to the differences in total factor productivity (TFP). An important question is what can explain the cross-country TFP differences. This paper considers a role of international trade to explain the cross-country differences in TFP. By using a multi-country Ricardian trade model, I provide a decomposition of the observed TFP into a pure technology, and trade costs and trade policy through international trade. Under a baseline parameterization, my model shows that conventional TFP measures overestimate fundamental productivity differences by 30%.

Keywords: Development accounting; Total factor productivity; Cross-country income differences; Ricardian trade model.
JEL Codes: E22, E23, F11, O40, O47.

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